



February 2, 1996

WILLIAM G. LAUGHLIN
VICE PRESIDENT & DIRECTOR OF
LAW—NATURAL RESOURCES

Mr. David S. Guzy, Chief
Rules and Procedures Staff
Minerals Management Service
Royalty Management Program
Building 85, Room A-212
Denver Federal Center
Denver, Colorado 80223



Re: Proposed Rule Published in the Federal Register of November 6, 1995 (60CFR56007)
Amendments to Gas Valuation Regulations for Federal Leases

Dear Mr. Guzy:

On behalf of Coastal Oil & Gas Corporation, ANR Production Company and CIG Exploration, Inc. (hereinafter "Coastal"), I am writing to offer comments to the Amendments to Gas Valuation Regulations for Federal Leases, published in the *Federal Register* on November 6, 1995 beginning at page 56007. Coastal is a medium sized oil and gas producer with a significant portion of its production located on federal and Indian leases, both onshore and offshore. I would like to express Coastal's appreciation for our opportunity to comment on the Proposed Rule.

Coastal closely followed the regulatory negotiation process leading up to the March, 1995 Final Report of the Federal Gas Valuation Negotiated Rulemaking Committee ("Committee Report"). We felt that our views were adequately expressed in the Reg-Neg Committee meetings through Steve Williams and Tammy Naron, both of whom represented mid-sized independent oil and gas companies.

Coastal is cautiously supportive of and gives its qualified approval to the Proposed Rule. While we are concerned as to whether or not the Rule will actually simplify royalty payment and reporting, we realize that the negotiations were long, difficult and often confrontational, with significant compromise from all sides. Coastal believes that the proposed Rule generally meets the needs of the Minerals Management Service, the States and those of us who pay the royalties.

Coastal does not support, however, portions of the Proposed Rule which either deviate from the Committee Report or add concepts which were not addressed or agreed to by the Reg-Neg Committee. To obtain industry support on these issues, Coastal would recommend reconvening the Reg-Neg Committee and attempt to reach a compromise acceptable to all parties. Coastal supports and adopts the Comments submitted by the American Petroleum Institute which present a comprehensive analysis of those issues.

Four major areas are of vital concern to Coastal in which the Proposed Rule varies from the Committee Report. They include:

1. Section 202.450(b) at page 56016 concerns treatment of downstream gas. The Reg-Neg Committee did not address the issue of prohibiting use of royalty free gas downstream of the facility measurement point. Various aspects of this matter have previously been litigated and the Minerals Management Service should follow the guidelines established by the courts.

Coastal States Management Corporation


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2. Section 206.454 at pages 56023-56027 (preamble at 56009) notes that the Reg-Neg Committee did not reach a consensus on appropriate benchmarks for valuing gas sold under non-arms-length contracts when the gas is not subject to valuation under an index based method. The preamble states that "MMS plans to issue a separate rule making that will improve existing benchmarks." Coastal's primary concern is that the Committee Report indicates that the MMS and the States appear to support a netting-back from the gross proceeds of an affiliates resale. Coastal is strongly opposed any method which requires that value for royalty purposes be based on resales by a lessee's affiliate. Any use of a net-back concept will lead to controversy and litigation. This, however, can be avoided. Coastal supports the improved benchmarks similar to those contained in the "Industry Proposal" at pages 54-55 of the Committee Report. The benchmarks as reflected in the industry's proposal establish royalty value based on information readily available to the lessee and set forth clear guidelines for comparable sales.
3. Section 206.454(a)(6) at page 45024 (preamble at 56011) requires lessees who receive revenue in connection with gas contract settlements occurring prior to the effective date of the Proposed Rule to pay royalty on the increment of revenue attributed by the MMS to future production. In the preamble, MMS requests comments on treatment of settlements entered into after the effective date of the Rule. Neither of these issues were addressed in the Committee Report and no consensus was reached by the Reg-Neg Committee. Coastal has always supported the position that additional royalties are not and should not be due on proceeds from gas contract settlements either before or after the effective date of the Proposed Rule.
4. Section 206.454(c)(6) at page 56026 (preamble at 56012) reflects that the Reg-Neg Committee did not address the consequences of MMS not publishing the final safety net medium value within two years. Should this occur, Coastal firmly believes that the index value reported by the payor should be deemed to be the value for royalty purposes and that no additional royalty should be due. Failure to meet the two year deadline removes the certainty industry needs to meet its royalty obligations without incurring additional interest charges and/or penalties.

Coastal urges the Minerals Management Service to reconsider portions of the Proposed Rule which were not considered or on which there was no consensus by the Reg-Neg Committee which are addressed in this Comment or in the Comment submitted by the American Petroleum Institute.

Sincerely,


William G. Laughlin

WGL/sc